



Committee On Finance

Max Baucus, Ranking Member

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Baucus Raises Concern Regarding Increase in Debt Limit

Senator Says Growing Deficits Will Have Adverse Effects on Economy

(WASHINGTON, D.C.) Today, U.S. Senator Max Baucus, Ranking Member of the Senate Finance Committee voiced serious concerns regarding S. 2986, the Debt Limit Extension bill. This bill would raise the debt ceiling to a staggering \$8.184 trillion. This would be an increase of \$800 billion, the third largest increase in history. The bill passed the Senate by only a 52-44 margin.

During his floor speech, Baucus emphasized that huge Federal debts will result in slower economic growth and lower standards of living for Americans in the future. Baucus also warned that massive Federal debts will increase foreign ownership of U.S. debt which could result in economic jolts if foreigners decided to suddenly sell this debt.

Baucus discussed the importance of the President and Congress' efforts to address the problem of rising debt by reducing budget deficits as soon as possible. In particular, Baucus encouraged fiscal discipline by reinstating pay-go rules and preventing the adoption of partial privatization of Social Security.

Full text of Senator Baucus' floor speech follows:

Senate Floor Statement of Senator Max Baucus Regarding the Debt Limit

"Mr. President, the Senate is here today to respond to the administration's request once again to increase the statutory limit on the Federal debt. More fundamentally, we are here in response to a warning. Like a proximity alert on an aircraft, the debt limit warns that the government is headed for a crash. We need to change course.

Unless we change course, the government's fiscal policy will consign American families to a lower standard of living. Unless we change course, American workers will have lower incomes than they would otherwise have, and the dollars they earn will be worth less than they otherwise would have been worth. Unless we change course, millions of Americans will live poorer lives. That is what we are really debating today, when we debate the debt limit. And that is why I shall vote against this bill: To signal that we must change course.

Narrowly speaking, today, we are considering the ceiling on Federal debt, the cap that the law places on borrowing by the Federal Government. The legislation before us would raise the debt ceiling to 8 trillion, 184 billion dollars. It would increase the debt ceiling by \$800 billion. As this chart shows, it would be the third-largest increase in the history of the Country.

Unfortunately, large debt ceiling increases are becoming all-too-common in this administration. Just last year, we were forced to raise the debt ceiling by a record \$984 billion. That was almost one trillion dollars in additional Federal borrowing. And just the year before that, the debt ceiling had to be increased by \$450 billion. That's more than \$2.2 trillion of debt in just 3 years. In contrast, prior to these 3 years, there had been no increase in the debt ceiling for 5 years.

An increase of \$800 billion of debt means \$2,700 more debt for every man, woman, and child in America. And the total of 8 trillion 184 billion dollars of debt means about \$25,000 of debt for every man, woman, and child in America. That is \$25,000 of burden on each of our children and grandchildren.

And today's increase will not be the end of large increases in the debt ceiling. Before next year runs out, we will need to raise the debt ceiling once again. The reason for these record increases in the debt ceiling is the record Federal budget deficits that our Government is running.

Since the current administration took office, record annual surpluses have turned into record annual deficits. In fiscal year 2001 — the transition year between the two administrations — the Federal Government ran a surplus of \$127 billion. But in fiscal year 2002 — the first full fiscal year in the current administration — the Federal Government ran a deficit of \$158 billion. In the next fiscal year, the Federal budget ran a record deficit of \$377 billion. And last year — fiscal year 2004 — there was yet another record deficit: \$413 billion.

These record deficits are even more painful when they are compared to the record annual budget surpluses that preceded them. In fiscal year 1998, the Federal Government ran a surplus of \$69 billion. This was a record budget surplus at that time, and the first budget surplus since fiscal year 1969. In fiscal year 1999, there was another record surplus: \$126 billion. This was followed by yet a third record surplus of \$236 billion in fiscal year 2000.

So in just 4 years, the Government had moved from a record surplus of \$236 billion to a record deficit of \$413 billion. That is a dramatic swing of \$649 billion in our annual Federal budget outcome. That is why we have had to raise the debt ceiling. It is because we are running record budget deficits.

In contrast, when we are running budget surpluses, the Government can pay off debt held by the public. That's what took place during the second half of the previous administration. Between 1998 and 2001, we paid off about \$450 billion of debt. Indeed, when the current administration took office, there was serious talk that all debt held by the public could be paid off within 10 years or so. What a sad turnaround we have experienced!

Will this continue? Unfortunately, the answer is yes. The President claims that he will cut the deficit in half in 5 years. This is far too rosy an estimate. For example, the independent, non-partisan Concord Coalition projects a deficit of about \$450 billion 5 years from now. This would be higher than last year's record deficit.

Ten years from now, the Concord Coalition projects that the deficit will be an astronomical \$734 billion. And the total of deficits for the next 10 years would be almost \$5 trillion. That means that Federal borrowing from the public would grow by \$5 trillion in 10 years. And the debt ceiling would rise by an extra \$5 trillion, as well. Does it matter if Federal borrowing increases by almost \$5 trillion dollars? It certainly does.

When the Federal government borrows money from the public, it threatens two bad results. First, the Federal borrowing could compete with borrowing by businesses and consumers. Real long-term interest rates would go up. Borrowing by businesses for new investments would go down. With fewer business investments, economic growth would decline — relative to what it could be. And our future standard of living would be lower than it could be.

Moreover, the rise in interest rates caused by the increased Federal borrowing would make household purchases by credit more expensive. The increased cost would cause households to have less purchasing power and they would buy less. For example, an increase in mortgage interest rates of 2 percent would increase home buyers' annual payments on a \$200,000 mortgage by about \$1,700. Potential home buyers would decide either not to buy these homes or to buy reduce their other purchases. In either case, the home buyers' standard of living would be lower.

The second bad outcome that the additional Federal borrowing could cause is that Americans would owe more to foreigners. Foreigners would increase their holdings of U.S. assets. This also would lower our future standard of living, as the earnings from American assets would go to foreigners, not Americans. Thus when the Federal Government borrows more, the standard of living of American families suffers.

There is another danger from added Federal borrowing as well. If foreigners — especially foreign central banks — buy a significant portion of our debt, our economy could be subject to serious jolts, if these lenders decided to sell off that debt precipitously. For example, suppose the dollar declines significantly. As Federal debt and the interest payments from that debt are denominated in U.S. dollars, the value of those assets would start to drop. Foreigners — including foreign central banks — might be afraid that the dollar would drop further. So they might sell off that Federal debt. This would cause a spike in interest rates that could throw the country into a recession. This is not just some fringe possibility. Paul Volcker, the former chairman of the Federal Reserve, recently said that he thought there was a 75 percent chance of a currency crisis in the United States within 5 years.

Alternatively, foreign central banks might decide to change their holdings of Federal debt for *political* reasons. For example, a foreign government might be involved in a trade dispute

with the U.S. This government would know that it could roil markets for U.S. Federal debt and the U.S. economy if its central bank sold a large portion of its holdings of U.S. Federal debt. So the government of that country might threaten such a sell-off. And this could undercut our government's position in the trade dispute.

At the end of September, foreigners held about \$1.9 trillion of our debt. Japan alone held \$720 billion of our debt. China was in second place with \$174 Billion. Moreover, of the \$1.9 Trillion total debt held by foreigners, foreign central banks held a total of \$1.1 trillion. Those total amounts are nearly double the totals just 3 years ago. The total debt held by foreigners is now 43 percent of all debt held by the public. And foreign central banks alone hold 30 percent of such debt. The forecast for future Federal deficits and borrowing looks bleak. Unfortunately, that is not the worst of it.

President Bush has made clear that he wants to pursue a plan for partial privatization of Social Security. Under this plan, part of workers' and employers' Social Security payroll taxes would be diverted into new private savings accounts for the workers. This means that there would be less revenue left in the Federal budget for other spending. The Federal Government would have to borrow more money to cover the difference. Federal debt would rise.

For many of the various partial privatization plans that are being proposed, these revenue losses would be between \$150 and \$200 billion a year in each of the next 10 years. And the losses would be even larger in subsequent years. These revenue losses — and the associated increases in interest costs — would raise annual deficits to previously unimaginable heights.

For example, the annual deficit projected by the Concord Coalition for 10 years from now would rise to well over a trillion dollars. And Federal debt would rise by an additional 2-to-3 trillion dollars over the next 10 years, to a total of about 7-to-8 trillion dollars of new borrowing during that period.

We should take two lessons from this dismal picture:

The first lesson is that we need to exercise true fiscal discipline. This is just common sense. American households sit around the kitchen table trying to make ends meet. They cannot keep spending more than they take in each year. They cannot keep taking loans and mortgages indefinitely. Because at some point, the banks just won't lend any more money. And they will insist that existing loans be paid off.

In the world of borrowing by the United States Government, China and Japan now play the role of the banks. This will force the U.S. to live within its means at some point. And it could happen suddenly. In that case, the change could be jarring to our economy. It would be far better for us to begin now to eliminate annual deficits in the Federal Budget on our own.

We can take concrete steps to reduce and ultimately eliminate Federal budget deficits. We can enact tough but reasonable caps on the spending that is renewed each year. And we can

reinstate the requirement that all new tax cuts and new permanent spending must be fully paid for. Moreover, this requirement must be met without resorting to any gimmicks.

A tough requirement that new tax cuts and new permanent spending be fully paid for was in place from 1990 until the spring of 2003. This requirement helped the budget to turn from deficits into surpluses. We should restore it as soon as possible.

The second lesson we need to learn is that we should not enact partial privatization of Social Security. There are a number of important reasons to stay clear of partial privatization. For example, these plans would be likely to cut total retirement income for many beneficiaries. And even this lowered income would be subject to risk in private markets.

But, in addition, partial privatization would dramatically increase Federal borrowing, annual Federal budget deficits, and Federal debt. And this would lower both our current and future standard of living. It would also make the U.S. economy vulnerable to a recession. And it could put the United States Government in a vulnerable position in its relationships with foreign governments. These fiscal dangers alone are sufficient reason to reject partial privatization of Social Security.

We need to respond to the debt limit's warning. We need to change course. We need to prevent the crash. We should heed Paul Volcker's warning of a 75 percent chance of a currency crisis in the United States within 5 years. We should act with a sense of urgency to avoid that dangerous result. We should change course now. We should wait no longer.

With next year's budget, the President and the Congress should begin bringing the deficit under control. We need to change course, so that American families can hope for a better standard of living in the future. We need to change course, so that American workers can have good jobs with good incomes, and a strong dollar with real value in international trade. And we need to change course, so that future generations of Americans can lead richer lives.

And so, Mr. President, I urge my Colleagues to vote against this increase in the debt limit as a signal of our opposition to the fiscal policy for which it stands. I urge my Colleagues to change course.

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